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Subcommittee on Oversight and Investigations

HEARING ON
Medicaid Prescription Drug Reimbursement: Why the Government
Pays Too Much

Topic
*Prescription Drug Reimbursement Under Medicaid:
System in Need of Reform*

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My name is David J. Balland, Associate Commissioner for Medicaid and the Children's Health Insurance Program (CHIP) at the Texas Health and Human Services Commission.

Before I begin my testimony, I would like to thank you, Mr. Chairman, and the members of the Committee for inviting Texas to speak on such an important topic. We look forward to sharing our prescription drug reimbursement best practices with our federal and state partners.

Our main goal in setting reimbursement for the Texas Medicaid prescription drug program, referred to as the Vendor Drug Program, is to make the reimbursement formula as fair as possible to all parties involved by reimbursing as close as possible to the pharmacies' actual cost of buying prescription drugs. Texas then works with the pharmacies to set an adequate fee to cover their costs to dispense that product to Medicaid recipients. In Texas, we spend about two billion dollars a year on prescription drugs for Medicaid clients (in state and federal dollars).

Current Pricing System: Most states currently use private companies to access prescription drug pricing information by drug in order to set reimbursement levels for their pharmacies for prescription drugs dispensed in their Medicaid programs. These companies request pricing information from drug manufacturers by drug and then make this unregulated pricing information available to their clients for a fee.

Unlike most other states, Texas does not solely rely on the pricing information provided by these private companies to set our reimbursement for prescription drug products due to the potential inaccuracy of the reported information and the actual cost of the product to the pharmacies.

Problems with Earlier Pricing Systems: Texas Medicaid used similar pricing services as most states until the early 1980's when the Texas Vendor Drug Program studied ways to more accurately pay for drug products paid to pharmacy providers. The Texas Vendor Drug Program had long recognized that the average wholesale price in the commercial price database was greater than the amount that Texas pharmacies actually paid the wholesaler for a drug product. In other words, Texas Medicaid was reimbursing our pharmacies at a higher amount than the pharmacies actual price to purchase the drug product.

In the early 1980's, Texas started requiring drug manufacturers to fill out an application (later referred to as a questionnaire) for their products to be considered for the Texas Medicaid list of covered prescription drugs (otherwise known as a formulary). In the questionnaire, drug manufacturers are asked to provide pricing information on a number of different kinds of actual prices for each prescription drug product in order to determine the appropriate reimbursement level for products purchased from different sources including:

- Average price pharmacies paid for product from a wholesaler, known as Average Wholesale Price;

- Price paid for product by the wholesaler and/or prescription drug distributor, known as Wholesaler Acquisition Cost;
- Chain warehouse price;
- Direct price to the pharmacy; and
- Similar pricing information.

Steps Taken to Further Refine Pricing: The Texas Vendor Drug Program took specific steps to further refine the reimbursement amount paid to our pharmacies including:

1. We put into place targeted prescription drug audits and pharmacy invoice audits; and
2. We requested additional pricing information directly from drug manufacturers.

Based on information from some out of state pharmacies and our Texas Medicaid regional pharmacists, who gather acquisition cost information in the public sector out-patient pharmacy market, Texas Medicaid Vendor Drug Program initiated two targeted drug invoice audits, one in early 2000 and the other in early 2001. Texas selected drug products with the greatest estimated discrepancy in pricing from drug manufacturers to review during the audits, including over 300 brand name and generic prescription drug products.

The audits found significant discrepancies between Texas Medicaid Vendor Drug Program reimbursement to our pharmacies and the amount the pharmacy was actually paying for most of the 300-plus products reviewed.

Texas Medicaid Vendor Drug Program Targeted Audit Savings: As a result of these two targeted audits, the Texas Medicaid Vendor Drug Program updated the base reimbursement amount for most of these specific drug products. The reimbursement updates to pharmacies for most of the products reviewed saved Texas Medicaid an estimated annual savings of over \$20 million in state and federal funds.

In addition to the targeted specific product audits, Texas Medicaid Vendor Drug Program also completed an invoice audit of more than 670 pharmacies in 2001-2002. This audit also indicated that Texas was reimbursing the pharmacies at a significantly higher amount than the pharmacies' cost to purchase their products from drug manufacturers or prescription drug wholesalers. Even though Texas Medicaid Vendor Drug Program proposed to change the prescription drug reimbursement formula after this audit, the program was unable to proceed with proposed changes due to legal challenges by the pharmacy association. This proposed rule was estimated to save Texas Medicaid millions of dollars annually due to setting more accurate reimbursement levels for prescription drugs.

Dispensing Fee: In addition to moving towards a more accurate reimbursement for product cost, the Texas Medicaid Vendor Drug Program is also working to determine the most accurate dispensing fee that our program should pay the pharmacy.

An August 2002 study completed by Myers and Stauffer L.C. indicated that the actual statewide median cost of dispensing a drug in Texas Medicaid is estimated at about 90 cents higher than the current dispensing expense. The dispensing costs were especially higher with specialty and urban pharmacies.

Next Steps: Texas will continue to develop tools and request additional pricing information that will assist us in setting the most accurate reimbursement for our pharmacies. Texas Medicaid Vendor Drug Program will proceed with the following activities:

- Continue with developing aggressive state maximum allowable cost (MAC) on certain products;
- Require drug manufacturers to also report average manufacturer price (AMP) for products in the Texas questionnaire;
- Further define the accuracy of the price the wholesaler pays the manufacturer, known as Wholesaler Acquisition Cost, and
- Analyze the feasibility of implementing a dispensing fee that reflects actual cost to pharmacies in Texas.

These additional price points will allow the Texas Medicaid Vendor Drug Program to cross check all the reported pricing information to reach the most accurate product cost and dispensing fee for a product.

Conclusion: Thank you, Mr. Chairman and members of the Committee, for giving Texas Medicaid and opportunity to be part of this important panel. Texas Medicaid works very closely with our partners, drug manufacturers and pharmacies, and has tried to establish a fair process that works for all parties involved.

In addition, we will proceed to be as flexible as possible while maintaining the best prescription drug prices for the state and federal government in the Texas Medicaid program. We must continue to seek the best value in order to be able to sustain this program that is so essential to the health of our vulnerable clients.